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First National City Bank Monthly Letter

Business and Economic Conditions

New York, August, 1955

General Business Conditions

THE July business reports again present a picture of great strength and activity. In years when business is less active than it is now and stocks of goods are abundant, the customary summer vacation shut-downs are apt to be lengthened a little, to build a backlog for more regular operations later on. Nothing like that has appeared this year. Nor have strikes and heat waves had much effect on aggregate industrial output. In most industries strong current buying, on top of substantial unfilled orders, is keeping plants under pressure. Automobile assemblies have shown less tapering than many expected, and the same is true of steel mill operations. Chairman Blough of the United States Steel Corporation stated July 26 that in some instances the pressure for deliveries "is as great or greater than it was a month ago". Retail sales are running strongly and construction activity is maintaining its record pace.

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For the month of June the seasonally adjusted Federal Reserve index of industrial production set a new high record at 139 (1947-49 = 100). Difficulties in measuring "normal" seasonal curtailment frequently cause erratic fluctuations in this index in July and August. It seems plain, however, that the "summer slump" this year is little if any more than a flattening out of the upward movement. While August and September will bring the moderating influence of automobile shut-downs for model changes, few now expect the changeover to have a seriously depressing effect.

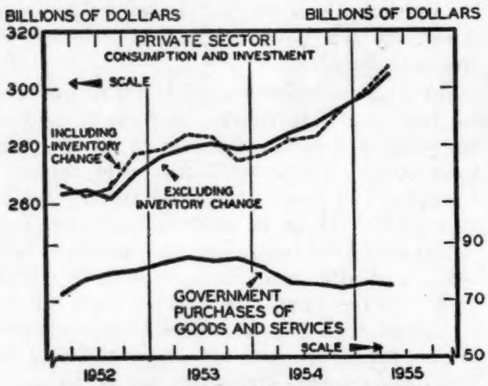
The markets reflect record levels of business, the best corporate earnings reports in four or five years, and bullish opinions of the prospect. More persons are at work than ever before in the nation's history and they are turning out an unparalleled volume of goods and services. People are receiving record-breaking incomes, both before and after taxes, and are spending them freely. At the same time business men are going ahead with capital expenditures, and purchasing agents see more reason for reaching out than for shortening commitments. Belief that a rise in industrial costs and prices is under way originated in the automobile labor settlements in June. It has been confirmed by the rise in steel wages and prices in July. Throughout the metal-working industries manufacturers will have to pay more for their own labor, more for their raw materials, and more for purchased parts and components. Prices of a few other industrial materials, notably rubber, have moved up strongly.

These developments have impressed not only industrial buyers, but the consumers' goods markets as well. Potential purchasers of automobiles and other consumers' durables, for example, are on notice that prices may be marked up. It would be remarkable if buying were not stimulated accordingly.

A Record Expansion

The way in which the economy has forged ahead into new high ground was emphasized last month when revised estimates of national product were issued by the Department of Commerce. At the turn of the year most observers had expected 1955 to show an increase of 3 per cent or so over 1954 but to fall somewhat short of the 1953 peak. However, the latest figures indicate that the gross national product – the total value of goods and services produced – reached an annual rate of $383 billion in the second quarter of 1955, 7 per cent better than the recession low a year earlier and well above the 1953 high of $369 billion two years earlier. The increase of $25 billion in national product during the past year is one of the largest on record, even including periods of war and inflation, and certainly is the biggest increase in physical output during peacetime.

The resiliency of the economy and the speed of the recovery are even more striking for the private sector of the economy, as shown in the accompanying chart.



Private and Government Sectors of the Gross National Product, 1952-55.

Consumer purchases and business capital investment (the heavy black line) dipped hardly at all during the recession, and in early 1954 – a good six months before the over-all total – the private sector had started moving upward again. In fact, the dislocations in 1953-54 caused by a sharp cutback in federal spending and a sizable inventory adjustment had less effect on private consumption and capital investment than did the steel strike in 1952.

Record-breaking production has brought in its wake new employment records. The early stages of recovery created only a small number of additional jobs but in early spring payrolls began to expand in earnest. In June, the number employed exceeded 64 million persons for the first time. In the preceding four months, over 4 million persons found work, about one-third more than the usual seasonal increase. Unemployment receded to 2,679,000 in June. The "hard core" of unemployment, in terms of persons out of work for long periods and areas with heavy concentrations of unemployment, has been further reduced, and few would question that the country is now enjoying substantially full employment.

Employment gains in the remainder of this year are likely to be less spectacular as seasonal forces contract farm employment and automobile firms prepare their new models. In a sense, this is fortunate, for continued expansion at the rate of recent months would lead before long to labor shortages, with resulting inefficiencies and bottlenecks.

The Dangers

This is a rosy picture of business at the midyear. It follows that sales forecasts almost everywhere are optimistic and that manufacturers are scheduling high or full production for the months ahead. But the question that was raised in the July issue of this Letter persists, namely, whether a wage-price spiral is setting in that will be accompanied by heavy inventory accumulation, and therefore by a temporary inflation of demand, followed inevitably by a reaction. A pattern of sizable wage increases is under way, wage and salary disbursements are on the rise, and industrial costs and prices are being pushed upward. Business comment is increasingly directed to the dangers that are implicit in these developments and in the market expectations aroused by them.

It is recognized that there are some counter influences. To help absorb higher wage costs business men will call as in the past upon design and engineering for more economical processing, labor-saving equipment, and generally improved efficiency. Some scarcities of goods, materials and labor have appeared, but they are fortunately few. Competition presses on prices in many markets and keeps buyers price conscious. Under strongly competitive conditions each business tends to keep its price increases to a minimum and accept some squeeze on profit margins. Business men in their own self interest cannot advance prices beyond what their customers are willing to pay. Furthermore, no marked rise in farm and food prices seems in prospect, which will help hold the cost of living against the inflationary influences.

Reassuring as these considerations may be, however, the pressure for higher manufactured

goods prices and the stimulus to inventory buying are indisputable. The swings of inventory, upward and downward, contribute heavily to business fluctuations. In 1949 and again in 1953-54 they were powerful influences in both boom and recession. To minimize excessive inventory accumulation, both prudent business management and appropriate public policies, particularly in the monetary area, are necessary. A continuing boom without continuing credit expansion would be impossible. The current Federal Reserve policy of mild money market restraint, together with the government action late last month in moderately increasing down payments and shortening maturities on federally guaranteed or insured mortgages, are evidence that the authorities are watching the situation closely.

Half Year Corporate Earnings

Corporate reports for the first half year show sales and earnings generally running at high levels as a result of the recovery of business to new peaks. Our tabulation of the statements issued to date by 734 companies gives a combined net income of approximately $5.1 billion after taxes, an increase of 31 per cent over the first half of 1954. About four out of five reporting companies had increases.

For the second quarter, net income totaled $2.7 billion, up 11 per cent from the preceding quarter and up 34 per cent from the second quarter of 1954. Two out of three reporting companies achieved gains over the preceding quarter, and four out of five over the second quarter of '54.

A condensed summary for the second quarter and half year is given in the accompanying table by those major industry groups for which several representative reports are now available. It will be noted that most, though by no means all, of the groups show plus signs this year. The gains vary widely in magnitude, however, reflecting such factors as the companies' relative profit margin position, their rates of long-term growth, and their setbacks, if any, experienced a year ago.

Trends in Major Industries

In the manufacturing industries the sharpest gains in net income for the half year were registered in iron and steel, automobiles and parts, rubber tires, chemicals, cement-glass-stone products and textiles. Most of the other lines show gains of smaller size. An important minority of producers find themselves squeezed by the generally rising tide of operating costs or a decline in new orders booked. The latter is being experienced by many companies in the aircraft, machinery, and other industries where large defense contracts or sub-contracts were cut back this year.

Reports now issued by 506 manufacturing companies show, nevertheless, that about four out of five achieved gains in their half year sales,

NET INCOME OF LEADING CORPORATIONS FOR THE SECOND QUARTER AND FIRST HALF YEAR

(In Thousands of Dollars)

No. of Cos.	Industrial Groups	Reported Net Income Second Quarter 1954	Reported Net Income Second Quarter 1955	Per Cent Change†	Reported Net Income Half Year 1954	Reported Net Income Half Year 1955	Per Cent Change†
24	Food products	$ 36,546	$ 36,184	— 1	$ 72,085	$ 68,352	— 5
14	Beverages	13,440	16,052	+ 19	21,265	24,633	+ 16
14	Tobacco products	34,701	41,389	+ 19	65,317	72,626	+ 11
15	Textiles and apparel	4,564	10,430	+ —	11,791	20,095	+ 70
27	Paper and allied products	32,590	39,768	+ 22	64,615	74,795	+ 16
8	Tires, rubber products	8,890	12,518	+ 41	18,838	26,047	+ 38
31	Chemical products	155,870	203,720	+ 31	302,430	393,943	+ 30
22	Drugs, soap, cosmetics	28,107	36,275	+ 29	58,932	71,744	+ 22
28	Petroleum producing and refining	435,351	495,180	+ 14	892,769	994,317	+ 11
38	Cement, glass, and stone	63,380	90,510	+ 43	108,263	159,530	+ 47
37	Iron and steel	149,288	281,747	+ 89	280,196	488,578	+ 74
22	Building, heating, plumbing equipment	22,147	24,838	+ 12	39,881	44,561	+ 12
24	Electrical equipment, radio and television	80,736	85,053	+ 5	173,310	171,735	— 1
42	Machinery	39,112	38,610	— 1	78,812	72,755	— 8
8	Office equipment	20,566	21,886	+ 6	36,789	39,883	+ 8
7	Automobiles and trucks	246,473	390,155	+ 58	445,175	736,365	+ 65
23	Automobile parts	28,974	46,971	+ 62	53,188	88,469	+ 66
12	Railway equipment	11,704	12,283	+ 5	25,996	22,382	— 14
73	Miscellaneous metal products	93,845	119,364	+ 27	171,439	216,675	+ 26
37	Miscellaneous manufacturing	51,897	76,792	+ 48	93,484	133,644	+ 43
506	Total manufacturing	1,558,181	2,079,725	+ 33	3,014,575	3,921,129	+ 30
24	Mining and quarrying	21,926	33,982	+ 55	41,624	66,041	+ 59
31	Trade (retail and wholesale)	16,518	19,786	+ 20	30,796	37,123	+ 21
21	Service and amusement industries	11,848	14,963	+ 26	24,946	29,458	+ 18
46	Railroads	119,374	211,117	+ 77	211,278	373,564	+ 77
67	Electric power, gas, etc.	138,405	153,838	+ 11	313,318	347,128	+ 11
39	Telephone and telegraph	141,216	171,654	+ 22	277,424	337,963	+ 22
734	Total	$2,007,468	$2,685,070	+ 34	$3,913,961	$5,112,406	+ 31

† Increases or decreases of over 100% not computed.

the combined total of which was up 13 per cent. Total costs, except income taxes, rose by 10 per cent, and the balance before taxes was up 32 per cent. Federal income taxes absorbed 50 per cent of that balance this year against 49 per cent in the first half of 1954. This left net income after taxes for the manufacturing group up 30 per cent, as shown by the following summary which is partly estimated:

Sales and Net Income of 506 Manufacturing Corporations in the First Half Year

(In Millions of Dollars)

	1954	1955	Change Amount	Change %
Receipts from sales, etc.	$43,821	$49,515	+5,694	+13
Total costs, except taxes	37,890	41,664	+3,774	+10
Balance before taxes	5,931	7,851	+1,920	+32
Federal income taxes	2,916	3,930	+1,014	+35
Net income after taxes	3,015	3,921	+ 906	+30
Taxes to balance before taxes	49%	50%		
Net income per sales dollar	6.9c	7.9c		

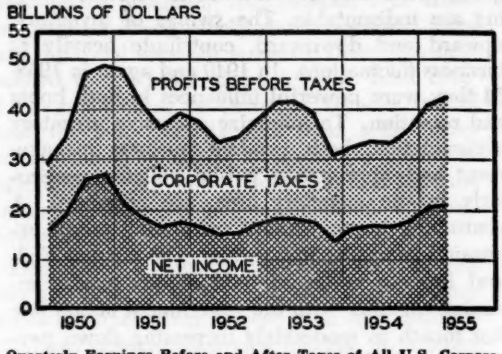
Reporting railroads had a rise of 77 per cent in the half year's net income as a result of the marked recovery in freight revenues combined with holding down of operating expense ratios. The improvement in traffic outlook as well as in railroad finances has recently brought many of the railroad systems back into the market with heavy orders placed for new freight cars and diesel locomotives.

Most of the major utility systems supplying electric, gas, telephone and other services have this year maintained their long-term growth trends. Industrial demand for electric power lagged in '54 but has gone ahead strongly this year, while residential demand was speeded up by the great increase in air conditioners, television sets and other appliances. It has been estimated by the industry that the country's generating capacity will have to be doubled during the next ten years.

Earnings of All Active Corporations

The longer-term trends of earnings of all active corporations in the U.S., numbering over 600,000, is shown in the accompanying chart, based on the regular computations by the Department of Commerce and including an estimate for the second quarter of 1955 just issued by the President's Council of Economic Advisers.

It will be seen that earnings, both before and after taxes, have now reached the highest level in four years. They remain well below the peak levels reached during the Korean war boom in 1950-51, however, despite the improvement this year and also despite the very substantial increase of capital funds, which in the years since the end of World War II have been built up at a rate averaging nearly $15 billion annually.



Quarterly Earnings Before and After Taxes of All U.S. Corporations. (Seasonally adjusted annual rates.)

In several respects, however, the earnings now being reported are of better quality than those during the previous peak. They are no longer swelled by the inventory profits which played such a large part in the boom earnings of 1950-51 and were then estimated by the Department of Commerce as high as $5 billion annually. Moreover, the reported earnings today are after deducting depreciation charges at accelerated rates permitted by law on national defense facilities, which causes lower earnings than if standard depreciation rates were applied.

Treasury Finance

Following the signing by the President of the bill providing for a one-year extension of the $281 billion debt limit, previously scheduled to revert to $275 billion on June 30, the Treasury moved promptly to cover its immediate cash requirements. The debt subject to the limit on June 30 was $273.9 billion; thus, the increase in the limit gave the Treasury leeway to borrow $7 billion more during the first half of the fiscal year, July-December, when revenues are comparatively light and a deficit is normal.

The first major step was taken July 5 when the Treasury announced a $2 billion offering of eight-month 1⅞ per cent tax anticipation certificates of indebtedness and a $750 million reoffering of forty-year 3 per cent bonds. Meanwhile the Treasury on July 7 began raising $100 million weekly on its regular 91-day Treasury bill issues. The assumption was that these borrowings would take care of Treasury cash requirements into, if not through, September. The new offerings found a ready reception and were absorbed with a minimum of disturbance to the money market.

The new tax anticipation certificates, dated July 18 and maturing March 22, 1956, attracted

a $10.6 billion subscription total, necessitating 19 per cent allotments. Borrowing in anticipation of March and June surplus tax revenues has become a regular practice with the Treasury. Many corporations find obligations maturing in tax months and usable in paying taxes a convenient repository for accumulating tax reserves. An oversubscription was insured by the 1⅞ per cent rate which fitted neatly into the money rate structure, and by the limitation of the offering to $2 billion. This amount is hardly a quarter of the taxes corporations may be called upon to pay next March and is less than the Treasury has borrowed in anticipation of March revenues in any one of the last three years.

More Forty-year 3s

The forty-year 3 per cent bonds were initially issued, in the amount of $1,924 million, last February 15 in exchange for part of a maturing bond issue. The 3s are the most popular single investment medium for pension funds, public and private. Despite a generally unfavorable trend in the bond market, they had consistently held premiums, ranging from ⅛ to 1⅜ points, ever since original issuance.

To place as much as possible of the additional 3s with nonbank investors the Treasury announced that savings-type investors – pension funds, insurance companies, mutual savings banks, etc. – could make payment in instalments, as funds accumulated, and might receive preferential allotments. As the following table shows, subscriptions from such savings-type investors made up $749 million of the $1,720 million subscription total. Savings-type investors were allotted 65 per cent. All others were allotted 30 per cent. In all an additional $822 million of the 3s was issued.

Subscriptions to Treasury 3s

Pension and retirement funds	$ 257 mil.
Insurance companies	216 "
Mutual savings banks	159 "
Savings and loan associations	68 "
Endowment funds	31 "
Other	18 "
Total for savings-type investors	$ 749 "
Commercial banks, dealers, etc.	971 "
Overall total	$1,720 "

Participation by commercial banks in an offering of bonds as long in term as forty years has several explanations. Some commercial banks found the 3s attractive for investment of their savings deposit accounts. More importantly, many commercial banks bought the 3s as temporary underwriters, with the purpose of selling them off as permanent investors accumulate funds. This purpose was illustrated earlier this year when the commercial banks took more than $400 million of the 3s on original issue. By April 30 the banks had sold almost half of these to pension funds, insurance companies and other permanent investors. This method of underwriting is a useful piece of machinery serving savings-type investors, particularly pension funds where in general money accumulates steadily on a monthly basis and is not available in large sums at any given time.

The issuance of more of the 3s represents another measured step in stretching out the public debt and restoring a market for genuinely long-term U.S. obligations. This is a long and slow job and can only be accomplished by having the courage to go ahead when favorable opportunities arise.

Closely following its successful cash financing, the Treasury refunded $8,327 million of the $8,477 million 1⅛ per cent certificates maturing August 15, into 2 per cent ten and one-half month tax anticipation certificates due June 22, 1956 and into an additional offering of the 2 per cent August 1956 notes originally issued last May 17. Only $150 million, 1.8 per cent, of the maturing 1⅛s required cash redemption.

This latter operation cleared the decks of Treasury maturities until December 15 and, with the exception of Treasury cash borrowing in October (and possibly a very moderate amount in September readily coverable by increased weekly bill offerings), leaves the money market and the Federal Reserve authorities free of concern for Treasury needs until then.

Federal Reserve and Bank Credit

Many observers had expected that the Treasury might encounter some real difficulties in raising funds for its seasonal deficit. The requirements for mortgage credit this year have put pressure on the supplies of funds available from life insurance companies, savings and loan associations, and mutual savings banks, largely eliminating these institutions as big buyers of U. S. obligations. The commercial banks have experienced increased credit demands from every side – business, real estate, consumers, and brokers and dealers in securities. Since their deposits were tending to decline, banks in the first half of 1955 had to sell more securities from their portfolios than in any other year since 1946.

The following table shows first half year changes, 1953-55, for deposits, loans, and investments of weekly reporting member banks. As indicated, these banks sold $1 billion more investments (mainly U.S. obligations) than in

1953 even though the deposit shrinkage was smaller than in that period of tight money.

Weekly Reporting Member Banks
Changes in Deposits, Loans and Investments,
First Six Months, 1953-55*
(In Millions of Dollars)

	1953	1954	1955
Deposits	$—4,311	$ —479	$—2,597
Loans	+ 364	—1,851	+2,919
Investments	—3,760	+1,663	—4,728

* From last Wednesday in December to last Wednesday in June.

It was clear from this record that banks were without capacity to provide major aid in Treasury financing. Many people formed the impression that a reduction in cash reserve requirements of the banks would be needed to release sufficient funds to absorb the new Treasury offerings. On the other hand, however undesirable it is to tie up excessive amounts of bank resources in idle cash, the view of the authorities clearly was that action cutting reserve requirements would not have been timely in light of the need for some restraint in granting credit.

The Federal Reserve limited its activities during July to buying Treasury bills in moderate amounts and lending to banks at the 1¾ per cent discount rate. By these means the money market was kept on an even keel, though with a firming trend in evidence towards the close of the month as the average rate at which weekly Treasury bill offerings were taken rose to 1.72 per cent, highest since September '53. The stiffening bill rates in turn touched off increases of ⅛, to 2⅛ per cent, on open market prime 4-6 months commercial paper, and of ¼, to 3¼ per cent on "Street" loans to security brokers on non-government collateral. Apprehensions of a rise in Federal Reserve discount rates played a part in firming Treasury bill rates and depressing bond prices.

Bumper Farm Output

Despite sharp restrictions on plantings of wheat, cotton, rice, and sugar crops, the Department of Agriculture reports that total crop production this year, based on July 1 conditions, promises to be the second highest ever, surpassed only in 1948. Acres diverted from the controlled crops, as well as some land on which winter wheat had failed, were largely planted to feed grains, forage crops, and soybeans. Although the 353 million acres in 59 principal crops planted or growing this season is around 1 million below a year ago, the decline in acreage is more than offset by indicated record yields per acre.

Production of feed grains will be considerably above last year because of near-record crops of corn, oats, and barley, and a possible record output of grain sorghums. The forecast of 3,450 million bushels for corn is one-sixth above last year's crop. Given continued favorable growing conditions, the corn crop may yet rival the record 3,605 million bushels produced in 1948. With July 1 stocks of feed grains 20 per cent above a year earlier, total feed grain supplies in the year ahead are expected to be at an all-time high.

In addition, soybean acreage and hay tonnage are at a record level. Production of soybeans, while not yet officially estimated, is privately placed at close to 400 million bushels, sharply above last year's record of 343 million.

On the other hand, cotton production, which the Department of Agriculture is not allowed to forecast before August 8, is generally expected to be the smallest since the 1950 crop of 10 million bales. Also, the anticipated wheat crop of 860 million bushels is the smallest since '43. But with a record July 1 carryover of 1,020 million bushels, indicated 1955-56 wheat supplies of 1,880 million bushels are at an all-time high. Since distribution this season is not expected to exceed 900 million bushels, apparently little progress will be made in reducing our mountain of wheat. With no restrictions on land taken out of wheat and cotton, it appears that the farm surplus problem is rapidly spreading to soybeans, feed grains, and other crops.

Storage Facilities Tight

This expected bumper harvest, along with record carryovers of wheat, corn, and most other grains, foreshadows another year of very tight grain storage facilities. As Under Secretary of Agriculture True D. Morse recently said:

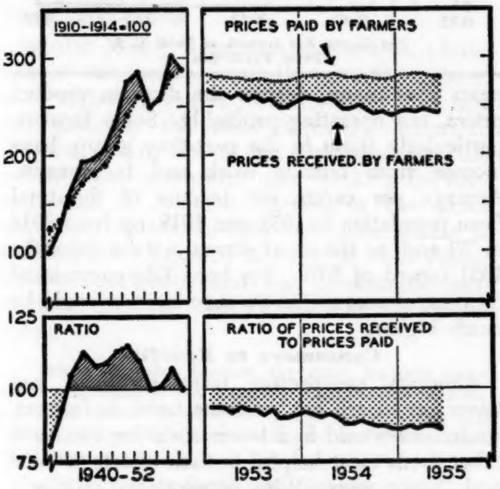
> For the grain group as a whole, including soybeans and flaxseed, it is estimated that there will be about 340 million bushels more than a year ago in total reserve stocks – before 1955 crops come. This all adds to the storage pressure.

Urging farmers to take immediate steps to provide any extra storage they will need, the Government is continuing a number of programs to encourage such action. These programs include liberal low interest storage facility loans obtainable by farmers from the Commodity Credit Corporation (CCC) as well as a special income tax feature which permits farmers to amortize the cost of new storage over a five-year period. Farmers can also earn storage payments by resealing old-crop corn and other grains.

Lower Farm Prices in Prospect

Although 24 per cent below the postwar peak in February 1951, the Department of Agricul-

ture's index of prices received by farmers has, despite the large surpluses, declined only 3 per cent during the past year July '54 to July '55. With farm costs remaining virtually unchanged, the Department's computed overall ratio of prices farmers receive to prices of items they buy — the so-called parity ratio — is down to 84 per cent against 88 in July a year ago. As shown by the following chart, the current parity ratio is well above the pre-World War II level and follows a long period during the war and postwar years when prices averaged well above 90 per cent of parity.



Prices Received and Paid by Farmers and the "Parity Ratio"

Reduction of unit costs of farm production during the past 15 years through mechanization, greater use of fertilizer, better crop varieties, and other improvements in technology have offset some of the decline in farm product prices, particularly on the efficient commercial farms. Continued heavy marketings have also minimized the drop in farm income. Nevertheless, cash costs in farming, because of the continued trend to commercialization, are and will remain high, making this sector of the economy more vulnerable than in years past to lower prices of farm products.

In view of the favorable crop outlook and lower supports on 1955 crops, there seems likely to be continued pressure in the year ahead on prices, particularly feed grains. While the support on 1955-crop corn (87 per cent versus 90 last year) remains relatively high, many farmers apparently have preferred to forego price protection on this crop rather than accept the acreage allotments. With price supports on oats, barley, rye, and grain sorghums cut from 85 to 70 per cent of parity, the loan program for these items has become less attractive.

The same is true of wheat, now propped at 82½ per cent of parity, against 90 last season. Thus far, farmers reportedly are selling wheat freely, with the loan tieup the smallest in several years. Of course, any appreciable drop in wheat prices below current levels might encourage a pickup in loan entries.

Price Support Activity to Remain High

Despite the possible drop in loan activity and estimated outlays for price support, the CCC expects plenty of business in the year ahead. On July 22 it asked the Congress to raise its borrowing authority by another $2 billion to $12 billion. Although President Eisenhower has reported that $1.2 billion of surplus farm products were sold for foreign currencies, bartered, or distributed for relief in the fiscal year ended June 30 last, the CCC investment in farm commodities during the past year has continued to pile up. CCC losses for the first eleven months of the fiscal year just ended totaled $644 million, a new record high.

While total CCC stocks have continued to increase, there have been some exceptions. Butter stocks, which at 461 million pounds a year ago constituted one of the biggest headaches of the price support program, have been cut to 179 million pounds, a reduction of over one-half in a year's time. Stocks of cheese and nonfat dry milk solids have also undergone sharp reductions. But on the $285 million worth of butter sold in the past year, "give aways" and sales at cut prices caused a CCC loss of around $255 million or 90 per cent of its investment in this commodity.

A happier and more significant explanation of the decline in government butter stocks is the increase during the past year in butter purchases for household use, encouraged by lower retail prices in turn made possible by the lowering of government price supports. Along with increased fluid milk sales, which have left less milk for processing into butter, cheese, and dried milk, this increase in butter consumption has cut current CCC price-support purchases of dairy products to about one-half last year's rate.

Like butter, the CCC stocks of cottonseed oil, with the help of heavy exports at cut prices, have been worked down from over a billion pounds (refined basis) in March '54 to about 80 million pounds currently. On this subject, Secretary of Agriculture Ezra T. Benson stated:

The successful movement of more than a billion pounds of cottonseed oil out of CCC inventory in little

more than a year is a real achievement. Reduced production and supply of oil abroad permitted somewhat more rapid disposal than would have otherwise been possible, but nevertheless the results of the distribution program are very gratifying. The oil was sold as needed without disrupting or breaking markets. We cooperated with our friends abroad to find constructive uses for a United States surplus.

The Secretary went on to say that although net losses in connection with liquidation of that surplus are estimated at about $70 million, taking the loss and moving the stocks was far better than the only alternative. This was to hold the surplus, pay heavy storage charges, run the risk of deterioration and spoilage, and let the CCC-held supplies overhang and depress the fats and oils market.

Nevertheless, these experiences stress the problem of producing commodities in excess of market demand and being forced to take huge losses at taxpayers' expense.

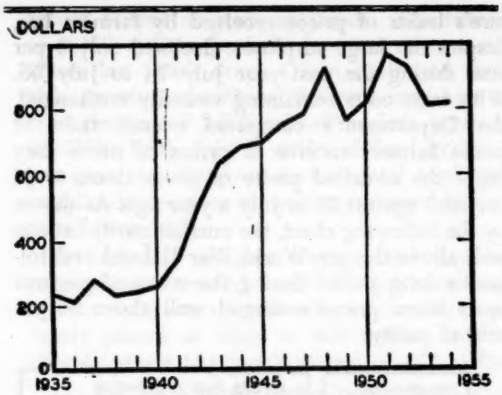
Livestock Production to Increase

Cheaper and more plentiful supplies of feed grains are likely, in the absence of other alternatives, to encourage increased production of livestock and livestock products. The 1955 spring pig crop was 9 per cent above a year earlier, and June breeding intentions indicated that fall farrowings would be 11 per cent above 1954 and the largest since '43. In addition, cattle on feed and poultry and egg production are at record levels, while milk output, despite some reduction in cow numbers, is at a near-record.

Because of record livestock production, total output of all farm products in 1955 may exceed the previous high set in '53. Continued heavy cattle marketings, along with the larger spring pig crop going to market this fall, suggest lower prices for cattle and hogs, unless market gluts can be avoided through effective sales programs for beef, pork, and other meats. However, larger marketings will in themselves partly offset the lower prices.

Cash receipts from farm marketings in the first half of '55 came to $12.2 billion, 4 per cent below the same period last year. Based on the present outlook, this year's total probably will be around $28 billion, against nearly $30 billion in '54. Assuming little change in overall farm costs, the farmers' realized net income this year might approximate $11 billion, against $12 billion last year. Since farm population continues to decline, any drop in per capita farm income will be less pronounced.

While small, inefficient farms and inability to keep pace with modern technology have kept some farmers at or close to the margin, it appears that many, despite the drop in product prices, are operating profitably. Some farmers, particularly those in the part-time group, have income from outside work and investments. Average per capita net income of the total farm population in 1954 was $918, up from $914 in '53 and, as the chart shows, not far from the 1951 record of $970. For bona fide commercial farmers, of course, the average income would be much higher.



Per Capita Net Income of Total U. S. Farm Population

Consumers to Benefit

Although prospective farm surpluses and lower prices are not welcome news to farmers, consumers would find lower costs for meat and other foods most helpful in their efforts to meet high living costs. With personal incomes at a record level, people in this country can afford and will continue the shift to consumption of high protein and mineral foods – such as meat, dairy products, eggs, green vegetables, and fruits – from fats and carbohydrates, such as bread and potatoes. For example, fluid milk consumption during the past year has increased in spite of higher average retail prices. Attractive prices will accelerate this shift.

Consumption of red meat (beef, veal, lamb, mutton, and pork) per person in 1955 is estimated at 160 pounds, 7 pounds above '54 and close to the record of 163 pounds in 1908. With our population increasing, the domestic market for meat and other foods will expand even if per capita use remains unchanged. Certainly, the prospect of converting increasing quantities of feed into more meat, milk, and eggs – which our population needs and wants – while cutting production of surplus crops, like wheat, augurs well for the future of American agriculture. As production of all farm commodities is tailored more nearly to demand, both farmers and consumers should reap the benefits.

Big Companies in a Big Country

The perennial economic debate on the subject of "big business" and the extent to which its growth is "swallowing up the little fellow" has been enlivened this year by numerous large mergers and the entrance of several new companies to membership in the "billion dollar clubs" based on sales or assets. According to a study by the Federal Trade Commission, the number of mergers has trebled since 1949, although 1954 was still below the postwar peak in 1946-47. It is often charged that such mergers are lessening competition and tending to create monopolies.

Senator John J. Sparkman of Alabama, Chairman of the Senate Small Business Committee, in an address given in New York last May said that probably the most important economic question facing the nation was whether "the current wave of mergers" was "pushing the concentration of economic power to the point where our traditional free enterprise system is threatened." As quoted in the *New York Times*, Senator Sparkman, who was Democratic candidate in 1952 for Vice President of the United States,

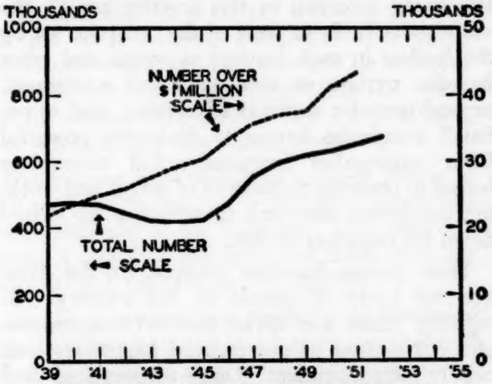
> . . . voiced concern "because the small business share of our national sales pie is getting smaller" and declared he was disturbed by what he termed the widening gap between the profit rate of our biggest and our smallest companies.
>
> He challenged any theory that what seemed good for big business necessarily was good for small business.
>
> He spoke somewhat sardonically of predictions of blooming prosperity and a bountiful future by "the forecasting fraternity," charging that the expanding economy was benefiting the already powerful few rather than the many . . .
>
> The small manufacturers' share of total sales fell from 19 per cent in 1947 to 14 per cent in 1953, he declared.

The comments by Senator Sparkman must be judged against the fact that the country has been growing, and corporations likewise have been growing both in size and number. This means that companies keep moving up from one size bracket to the next, with the inevitable result that those under any given size limit handle a decreasing share of the total business.

According to the quarterly estimates made by the Securities & Exchange Commission and the Federal Trade Commission, manufacturing corporations with assets under $1 million accounted for only 14 per cent of the total sales in 1953. But this reflects not only growth of companies over that size but also growth of smaller firms which shifted some of them above the million dollar line. If the size line were drawn at $1 million a few years ago, perhaps the same relative size should be $2 million today.

Individual incomes likewise have been moving up greatly during recent years. The fact that incomes below a certain size constitute a decreasing share of total personal income is usually regarded not as a cause for concern but a source of satisfaction.

As a result of both economic expansion and price inflation the number of companies in all lines reporting assets over $1 million rose from 22,828 at the end of prewar 1939 to 43,198 at the end of 1951, the latest date for which complete figures are available from the Treasury tabulation of corporate tax returns. The larger companies have increased faster than the total number of corporations, as will be seen in the accompanying chart.



Total Number of U.S. Corporations and Number Reporting Assets Over $1 Million

At the rate of some 2,000 companies annually moving above the $1 million asset level between 1945 and 1951, the further growth to date may have carried their number to the neighborhood of 50,000. Among these are corporate "giants" with assets over $100 million which numbered 747 at the end of 1951 and are far more numerous today.

In the year 1951, companies with assets under $1 million made up 93 per cent of the total number but accounted for only 28 per cent of the total sales or revenues. Companies having assets over $1 million, although making up only 7 per cent of the total number, accounted for 72 per cent of the sales, 87 per cent of the taxes, 88 per cent of the net income, and 92 per cent of the dividends.

People need big companies in a big country to provide the low-cost mass production of many types of goods and services – especially those requiring heavy capital investment in plant and equipment. In many lines, however,

small business still holds its own against the foremost competitors in the field.

Number of U.S. Corporations Reporting Total Assets Over $1 Million at End of Year 1951

Manufacturing	
Foods & beverages	1,549
Textiles & apparel	1,730
Wood products	897
Paper products	607
Printing, etc.	705
Chemical products	784
Petroleum products	193
Stone, etc., products	466
Primary metals	604
Fabricated metals	1,107
Machinery	1,477
Electrical equip.	513
Transportation equip.	173
Motor vehicles	225
Other manufacturing	1,177
Mining	
Metal mining	161
Coal mining	311
Oil & gas	469
Other min. & quar.	150
Trade	
Retail	2,338
Wholesale, etc.	4,094
Transportation & Utilities	
Transportation	1,304
Communication	195
Electric, gas, etc.	569
Service, etc.	
Hotels	396
Amusements	254
Agriculture	320
Construction	1,036
Other	622
Finance	
Banks & trust cos.	11,765
Other credit agencies	1,022
Investment cos.	1,136
Brokers & dealers	136
Insurance carriers	1,141
Real estate	3,572
Total	43,198

The endurance and growth of small business still being recorded in this country are all the more remarkable in view of the hot pace set by the leaders in such matters as wages and labor benefits, outlays on new plant and equipment, expenditures for national advertising, and so on. Small companies having to deal with powerful labor monopolies frequently find themselves forced to conform to patterns of wages and working conditions they can ill afford or be closed down by crippling strikes.

There is one business concern, on the average, for every 40 people in this country. Altogether there are about 600,000 corporations plus 3.6 million unincorporated businesses – all closely interdependent. Large corporations deal with literally thousands of smaller corporations, firms, proprietorships, and individuals as suppliers, subcontractors, and distributors. On the free exchange of goods and services among all of them and the public depends the smooth functioning of our whole economic organization and our rising standard of living.

The total number of active businesses in this country remains relatively stable despite a turnover averaging over 2,000 every business day. According to the Department of Commerce, 650,000 concerns last year went out of business through sale of assets, consolidation, voluntary liquidation, or failure, yet 647,000 businesses were started or acquired.

100 Largest Nonfinancial Corporations

Annual reports prepared by the larger companies for their shareholders, employes, customers, governmental authorities, and the general public reveal an ever-increasing wealth of information as to their operations. As a rule, the larger the company the more details are readily available concerning it. There is a constant spotlight of publicity on the record of how the giant enterprises are conducting their affairs and of how well they are satisfying the many diverse groups with whom they deal.

An examination of their latest reports shows the vital part these organizations constitute in the country's economic structure, from Maine to California, Minnesota to Texas. They produce much of the basic raw material and equipment, oil and gas, electric power, transportation and communication services on which the national economy rests. Their financial statements picture vast receipts, and equally vast disbursements for wages and salaries, goods and services, income and other taxes, dividends and interest, as well as capital investment in plant and equipment.

Total Assets, 100 Largest U.S. Nonfinancial Corporations as Reported at End of 1954 (In Millions)

Manufacturing	
Allied Chem. & Dye Cp.	$689
Aluminum Co. of Amer.	917
American Cyanamid Co.	500
Amer. Tobacco Co.	775
Anaconda Co.	870
Armco Steel Corp.	490
Armour & Co.	470
Atlantic Refining Co.	612
Bethlehem Steel Corp.	1,613
Chrysler Corp.	1,035
Cities Service Co.	1,054
Continental Oil Co.	480
Distillers Cp.—Seagrams	474
Dow Chemical Co.	679
E.I. du Pont de N. & Co.	1,946
Eastman Kodak Co.	559
Firestone Tire & Rub. Co.	577
General Electric Co.	1,692
General Motors Corp.	5,130
B. F. Goodrich Co.	464
Goodyear Tire & Rub. Co.	669
Gulf Oil Corp.	1,969
Inland Steel Co.	461
Inter. Bus. Mach. Corp.	565
Inter. Harvester Co.	940
Inter. Paper Co.	549
Jones & Laughlin Stl. Cp.	577
Kennecott Copper Corp.	731
Liggett & Myers Tob. Co.	491
National Steel Corp.	548
Olin Mathieson Chem. Cp.	474
Phillips Petroleum Co.	1,093
Procter & Gamble Co.	477
Radio Corp. of Amer.	548
Republic Steel Corp.	748
R. J. Reynolds Tob. Co.	618
Shell Oil Co.	1,042
Sinclair Oil Corp.	1,187
Socony Mobil Oil Co.	2,257
Stand. Oil Co. of Calif.	1,678
Stand. Oil Co. (Ind.)	2,187
Stand. Oil Co. (N. J.)	6,615
Sun Oil Co.	495
Swift & Co.	495
Texas Co.	1,946
Union Carbide & Car. Cp.	1,252
Union Oil Co. of Calif.	511
U. S. Rubber Co.	497
U. S. Steel Corp.	3,349
Western Electric Co.	891
Westinghouse Elec. Cp.	1,329
Youngstown S. & T. Co.	501
Trade	
Great A & P Tea Co.	$492
Montgomery Ward & Co.	721
Sears, Roebuck & Co.	1,470
F. W. Woolworth Co.	471
Transportation	
Atchison, Topeka & S.F.	1,485
Atlantic Coast Line	508
Baltimore & Ohio RR.	1,274
Chesapeake & Ohio Rwy.	924
Chicago, Burl. & Quincy	805
Chicago, Mil., St. P. & P.	668
Chicago & North Western	572
Chicago, Rock I. & P.	471
Great Northern Railway	914
Illinois Central RR	662
Louisville & Nashville	628
Missouri Pacific RR.	757
New York Central RR.	2,608
Norfolk & Western Rwy.	597
Northern Pacific Rwy.	901
Pennsylvania Railroad	3,040
Southern Pacific Co.	1,986
Southern Railway Co.	821
Union Pacific Railroad	1,336
Public Utility	
Amer. & For. Pow. Co.	830
Amer. Gas & Elec. Co.	1,035
Amer. Tel. & Tel. Co.	12,850
Columbia Gas System	674
Com'wealth Edison Co.	1,188
Con. Edison Co. of N.Y.	1,542
Con. Natural Gas Co.	459
Consumers Power Co.	572
Detroit Edison Co.	680
El Paso Natural Gas Co.	600
General Pub. Util. Corp.	653
General Telephone Corp.	467
Inter. Tel. & Tel. Corp.	637
Middle South Utilities	570
New Eng. Elec. System	474
Niagara Mohawk Pr. Cp.	715
Pac. Gas & Elec. Co.	1,781
Peoples Gas, L. & C. Co.	472
Philadelphia Elec. Co.	734
Pub. Ser. Elec. & G. Co.	775
So. Calif. Edison Co.	757
Southern Company	829
Tenn. Gas Trans. Co.	742
Texas Utilities Co.	512
United Gas Corp.	597

Total assets are shown after deducting reserves for depreciation. Table does not include Ford Motor Company, with total assets of $1,895 million on Dec. 31, 1953, which company does not publish an income account.

The accompanying table lists the 100 largest corporations, except banks and insurance companies, based on total assets reported at the end of 1954. There are 52 engaged in manufacturing,

4 in trade, 19 in transportation, and 25 in public utility. Largest on the list is the American Telephone & Telegraph Company whose consolidated statement including its principal telephone subsidiaries shows assets of $12.8 billion. Thirty companies are each over the $1 billion mark. For all the companies total assets aggregate $114.0 billion — 2.1 times the 1939 total.

The 100 companies employ approximately 5,545,000 men and women. Their total assets thus represent an average of about $21,000 per employe. For the manufacturing companies the average is $17,000 but it varies widely among different industry groups. For railroads it is $29,000, and for public utilities $33,000.

Net property account, representing land, buildings, and equipment, less reserves for depreciation and depletion, amounts to $72.0 billion or almost two-thirds of total assets. The balance is made up mostly of cash, marketable securities, receivables, and inventory.

Net assets or net worth, represented by capital stock and surplus account, aggregated $68.3 billion at the year-end. Outstanding common shares numbered 1,363 million. The companies are owned by approximately 8,570,000 registered shareholders, though this total includes considerable duplication where the same persons own stock in two or more companies in the group. Since 1939 the distribution of ownership of these companies has widened by one-third. Bell Telephone System alone has over 1,300,000 investors. General Motors has passed the 500,000 mark, and 50 others in the group have over 50,000 each. Substantial amounts of stock are owned by the companies' employes as well as by profit-sharing and pension funds.

In addition to the equity capital, 93 of these companies had long-term debt outstanding at the year-end to a total of $27.2 billion.

Distribution of Income

Last year the 100 largest nonfinancial companies had receipts from sales, operating revenues, and other sources totaling $94 billion. This is 4.2 times their receipts in 1939. Since then the number of companies that take in over $1 billion annually has soared from 2 to 24. Receipts were distributed as shown in the table.

Wages, salaries, and labor benefits (pensions, insurance, vacations, etc.) amounted to approximately 27.4 cents per sales dollar. Such employment costs represented an average of about $4,650 per employe.

Total direct taxes, exclusive of sales and excise taxes collected from customers, took an average of 10 cents out of every dollar.

Disposition of Receipts by the 100 Largest U.S. Nonfinancial Companies in the Year 1954

	Total (Millions)	% of Receipts
Total receipts from sales, revenues, etc.	$94,051	100.0
Costs:		
Costs of goods and services purchased from others, etc.	46,189	49.1
Wages, salaries, and labor benefits*	25,800	27.4
Provision for depreciation and depletion	4,745	5.1
Interest paid	915	1.0
Federal income taxes	5,019	5.3
Other federal, state, local & foreign taxes†	4,438	4.7
Total costs of operations	87,106	92.6
Net income	6,945	7.4
Preferred and common dividends paid	3,962	4.2
Retained in the business	$ 2,983	3.2

*Partly estimated, on basis of payrolls reported by companies representing 85 per cent of the total employment of the group.
†Tax figures charged as costs are exclusive of various sales and excise taxes collected from customers. Such taxes on gasoline and oil collected by the 14 petroleum companies alone amounted to $2,578 million.

After deducting all other expenses, mainly for goods and services purchased from others, the net income was 7.4 cents per dollar of receipts. For the manufacturing companies as a group this margin was also 7.4 cents, while for railroads it was 7.1 cents, for public utilities 11.5 cents, and for trade — with a much faster capital turnover — the margin was only 2.7 cents.

Net income represented an average return of 10.2 per cent on the net worth (total assets less total liabilities) at the year-end. For manufacturing it was 13.0 per cent, for trade 10.6, for railroads 3.9, and for public utilities 7.9.

Dividend payments to preferred and common shareholders amounted to 4.2 cents per dollar of sales. The balance of net income retained in the business and applied toward financing growth covered only part of the requirements. Additional capital in substantial amounts has been raised by a number of these companies through new stock or bond issues since the first of this year. It takes a lot of people to provide a lot of money ($21,000 per worker) to make possible an ever-increasing number of jobs at good wages.

Whether or not these 100 largest companies, as well as other enterprises large and small, keep on growing in the future boils down mainly to one simple factor — success in offering goods and services that people want at prices people are willing to pay. Business of all sizes must meet constant competition and the larger a business grows the more competition it attracts — not only from concerns in the same line but also from those in other lines striving to get a greater share of the consumers' dollars. There is nothing preordained about business growth, and membership in the "100 largest club" is constantly changing, as inspection of the records over the years will readily show.

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